Distr.
GENERAL

PBC.8/12
8 May 1992

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Programme and Budget Committee

Eighth session
Vienna, 29 June - 3 July 1992
Item 7 of the provisional agenda

USE OF UNUTILIZED BALANCES OF APPROPRIATIONS

Report of the External Auditor stating his opinion on the allocation of any retained unutilized balances of regular budget appropriations of the United Nations Industrial Development Organization (UNIDO) to those original programmes that had been affected*

Report by the External Auditor

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LETTER OF TRANSMITTAL

6 May 1992

Dear Mr. Siazon,

In response to decision GC.4/Dec.15, paragraph (e), adopted by the General Conference on 22 November 1991, I have the honour to transmit herewith for submission to the Chairperson of the Programme and Budget Committee a report stating my opinion on the allocation of any retained unutilized balances of regular budget appropriations of the United Nations Industrial Development Organization to thuse original programmes that had been effected.

Yours sincerely,

(Signed) Jeroom L. E. VAN de VELDE
Senior President of the Court of Audit,
Belgium
External Auditor

* The present document has not been edited.

V.92 54076 3039E

Distr.: 14 May 1992

Introduction

1. The present report is submitted in response to decision GC.4/Dec.15 - Financial situation of UNIDO, adopted by the General Conference of the Organization on 22 November 1991.

2. In paragraph (e) of decision GC.4/Dec.15, the General Conference has requested the External Auditor to submit his opinion to the Programme and Budget Committee in future on the allocation of any retained unutilized balances of appropriations to those original programmes that had been affected.

3. Decision GC.4/Dec.15, paragraph (e), is in conformity with UNIDO financial regulation 11.6, which stipulates that the Conference, the Board or the Programme and Budget Committee may request the External Auditor to perform certain specific examinations and to issue separate reports on the results.

4. The scope of the audit examination has been restricted necessarily to those aspects of the subject-matter that are covered by the mandate and the terms of reference of the External Auditor of the Organization (article XI and the annex to the Financial Regulations of UNIDO refer), namely:

(a) The legislative acceptability and conformity;

(b) The financial viability;

(c) The technical feasibility; and

(d) The administrative and financial appropriateness and effectiveness.

5. In line with established audit procedures the factual data and the views recorded in this report have been discussed by the audit team with senior officials of the Organization and their comments and observations have been taken into account where appropriate.

I. SUMMARY OPINION

6. The reallocation of unutilized balances of appropriations to those original programmes that had been affected is tantamount to the adoption and implementation of a deferred programme and budget.

7. The deferred programme and budget technique is only one of several possible methods for the reallocation of budgetary surpluses.

8. Derogation from any constituent part of the prevailing financial regulations of the Organization such as the treatment of unencumbered balances of appropriations should in our view:

(a) Always be approved in advance by the General Conference of the Organization; and

(b) Be limited strictly to exceptional and compelling circumstances, and be accompanied by appropriate ad hoc budgetary and financial management instructions.

9. Before any decision on the treatment of unutilized balances of appropriations is taken, the availability of cash resources necessary for the implementation of the proposals should first of all be duly ascertained from the UNIDO General Fund cash position and cash-flow forecast reports.

10. In the case of UNIDO, the real and figurative deferred programme and budget techniques appear to be technically impracticable and inappropriate from a general administrative and financial management viewpoint.

11. The reallocation of unutilized balances of appropriations to those original programmes that had been affected (or the deferred programme and budget technique) is therefore effectively implementable at UNIDO only:

(a) For certain, well-defined and "autonomous" substantive (sub)programmes such as the Industrial Development Decade for Africa (IDDA) and the regular programme of technical cooperation; and/or

(b) For specific object of expenditure categories such as ad hoc expert group meetings, purchases of equipment, publications, consultant services and certain other services (e.g. replacement of carpets).

12. The budgetary allocation of retained budgetary surpluses for financing shortfalls in regular budget implementation towards the end of a subsequent fiscal period (and irrespective of the original programmes that had been affected) obviously amounts to a reassessment on Member States. The practical possibility of supplementary regular budget estimates and/or assessments for a current fiscal period, has, however, already proved questionable under the prevailing UNIDO legislative conditions.

13. In the ultimate analysis we are of the opinion that the interests of both the Organization (programme monitoring and implementation) and individual Member States are served best by the non-budgetary (temporary) allocation of unutilized balances of regular budget appropriations, if necessary, for strengthening the statutory cash resource base of the Organization (Working Capital Fund).

II. PRELIMINARY REMARKS

14. The reallocation of any retained unutilized balances of appropriations to those original programmes that had been affected is tantamount to the adoption and implementation of a deferred programme and budget.

15. In the case of UNIDO, this might seem at first glance a legitimate and expedient technique to make up for the delays incurred in programme and budget implementation as a result of:

(a) Cash-flow difficulties caused by delays in the payment of assessed contributions by Member States;

(b) The inadequacy of the level of the Working Capital Fund in the light of the very high level of unpaid assessed contributions;

(c) Compliance by the Secretariat with mandatory regular budget contingency margins (the obligation to keep in reserve an amount representing 15 per cent of the regular budget appropriations pending the receipt of assessed contributions from Member States); and

(d) The late approval by the General Conference of the Organization (towards the end of the second year of the biennium) of any supplementary appropriations and/or additional

funding for the regular budget of the current fiscal period.

16. Given these circumstances there are, however, still other possible methods for the reallocation of (retained) balances of appropriations. Thus, the General Conference in its decision GC.4/Dec.15 of 22 November 1991 has not allocated the unutilized balance of appropriations for the biennium 1986-1987 "to those original programmes that had been affected" but instead for the financing of (a) a supplementary regular budget estimate resulting from unforeseen staff costs, and (b) an estimated shortfall in regular budget other income for the fiscal period 1990-1991. Moreover, for the fiscal periods 1986-1987 and 1988-1989, the General Conference has decided to suspend temporarily UNIDO financial regulations 4.2 (b) and 4.2 (c), to allow the Secretariat to retain the unutilized balances of appropriations "in order to facilitate the work of the Organization" (see Conference decisions GC.3/Dec.17 and GC.4/Dec.15), which has been interpreted correctly by the Secretariat as a provision of additional financial resources to the Organization but not as an authorization of any additional budgetary expenditures.

17. We therefore found it necessary and meaningful to extend the audit exercise to a general review of methods for the budgetary or non-budgetary reallocation of budgetary economies and surpluses such as:

(a) The real deferred programme and budget (for the implementation of those programme activities and to the exact extent that they had been affected);

(b) The figurative deferred programme and budget (for the implementation of additional new activities under the current programmes that had originally been affected);

(c) The budgetary allocation of balances of appropriations to the funding of unforeseen expenditure or shortfalls in the current programme budget; and

(d) The non-budgetary, temporary allocation of unused balances of appropriations for strengthening the statutory cash resource base of the Organization either directly (i.e. replenishment and/or increase of the Working Capital Fund) or indirectly (i.e. the reservation on an ad hoc basis of unused balances of appropriations for cash management purposes - see General Conference decisions GC.3/Dec.17(c) of 23 November 1989 and GC.4/Dec.15(d) of 22 November 1991).

18. Although our analysis of the issue under review is basically theoretical in nature, the audit comments and observations took into account the prevailing legislative context (UNIDO Financial Regulations and Rules) and the actual budgetary and financial situation of UNIDO during the period from 1986 to 1991.

III. LEGISLATIVE ACCEPTABILITY AND CONFORMITY

19. At present, specific instructions on the provision of funds for the regular budget of UNIDO and on the treatment of any unencumbered balances of regular budget appropriations are laid down in the financial regulations of the Organization as approved by the General Conference in its decision GC.2/Dec.25 of 12 November 1987 and amended by its decision GC.3/Dec.21 of 23 November 1989.

20. Article 8.3 (c) and (f) of the UNIDO Constitution stipulates in this regard that "The Conference shall ... approve the financial regulations of the Organization and supervise the effective utilization of the financial resources of the Organization" and that "The Conference shall ... Take any other appropriate action to enable the Organization to further its objectives and carry out its functions". It follows therefore that, under the terms of the UNIDO Constitution, the sovereign authority to amend, suspend, overrule, ... the prevailing regulations of the Organization, either in general or in a particular instance, rests solely and exclusively with the General Conference of the Organization.

21. However, since the financial regulations form a coherent aggregate governing the financial administration of the Organization, derogation in any form from any constituent part of the prevailing regulations such as the treatment of unencumbered balances of regular budget appropriations should in our view:

(a) Be limited strictly to compelling, exceptional circumstances warranting a temporary deviation from the established legislative framework; and

(b) Preferably be accompanied by ad hoc budgetary and financial management procedural instructions, as deemed necessary or appropriate.

IV. FINANCIAL VIABILITY

22. The prime concern in any evaluation of the possible future treatment of budgetary surpluses should, in our view, always go to the cash management aspects (cash limitations and cash implications) of the issue. The decision-making process on the future treatment of unutilized balances of appropriations should therefore start from an analysis of all available data on the actual and (the projected) future financial situation of the Organization (cash position and cash flow forecast reports). We fear that otherwise, in the case of UNIDO, any form of reallocation of unused budgetary balances in particular might severely exacerbate an already difficult cash situation which would inevitably be detrimental to the smooth and effective monitoring and implementation of the approved substantive programmes in general. The Administration agreed that the concern is of particular relevance since UNIDO is a young organization which has faced financial shortfalls since its inception and has not been able to fully repay the United Nations loan balance ($14.0 million) or replenish the Working Capital Fund.

23. We found in this regard that, in particular as a result of the adverse currency fluctuations during the period 1986-1987 and the persistent trend of considerable delays in the payment of assessed contributions by Member States throughout the period 1986-1991 (see table 1), the actual cash situation of the Organization has evolved in such a way that the paid-up share of the unused budgetary balances has meanwhile been absorbed completely in the cash-flow cycle (see table 2). Even under favourable circumstances, it would thus take considerable time to rebuild the actual cash resources necessary for surrendering or reallocating the existing budgetary surpluses.

Table 1

UNIDO General Fund

Regular budget unpaid assessed contributions from Member States, 1986-1991

(In thousands of US dollars)

Date (a)	For the biennium 1986-1987 (b)	For the biennium 1988-1989 (c)	For the biennium 1990-1991 (d)	Total (e)
31 December 1986	16,417.3	-	-	16,417.3
31 December 1987	26,012.8	-	-	26,012.8
31 December 1988	2,941.9	23,732.0	-	26,673.9
31 December 1989	806.9	31,158.4	-	31,965.3
31 December 1990	434.3	4,688.4	28,914.0	34,036.7
31 December 1991	112.0	1,670.2	28,663.5	30,445.7
Total assessments on Member States	115,806.8	148,754.1	172,124.2	

Table 2

UNIDO General Fund and Working Capital Fund

Cash position in December of the second year of the fiscal periods completed to date

(In millions of US dollars)

Month/year (a)	Opening cash balance (b)	Closing cash balance (c)
December 1987	10.6	7.5
December 1989	17.2	8.0
December 1991	8.1	8.8

V. TECHNICAL FEASIBILITY

24. The budgetary reallocation of any retained unutilized balances of regular budget appropriations also raises questions as to its practical technical feasibility.

25. First of all, the exact global amount that should be taken into account for such a reallocation exercise must be determined or agreed upon. While it is clear (see table 3) that only the (net) budgetary surplus (Statement II of the UNIDO financial report (IDB.10/4 - PBC.8/9)) and not the unencumbered balance of regular budget appropriations (Status of appropriations - Statement I of the UNIDO financial report (IDB.10/4 - PBC.8/9)) forms a relevant base for this exercise, especially a real deferred programme and budget would require a further reduction of the global reallocation amount in order to eliminate the cost of programme activities that have been implemented under subsequent programme budgets (whether or not reported as such) (see table 3: (A) - (B)).

Table 3

UNIDO General Fund

Regular budget balances of appropriations and surpluses, 1986-1989

(In US dollars)

(a)	Biennium 1986-1987 (b)	Biennium 1988-1989 (c)
Final amount of regular budget expenditure	130,436,955	171,465,898
Final amount of regular budget balance of appropriations	4,701,545	4,694,702
Final amount of the unutilized balance of appropriations (surplus account) (A)	4,377,386	6,496,192
Amount included in (A) and reported as re-obligated against the appropriations of the following biennium (B)	559,623	
(A) - (B)	3,817,763	
Amount of assessed contributions unpaid as at 31 December 1991	111,961	1,670,239

26. Moreover, the "original programmes that had been affected" and the extent of this "affection" for individual programmes must be identified and measured. We found that this is almost impossible in the case of UNIDO because:

(a) It is not clear whether the exercise should be made on the basis of the original programme appropriations or on the basis of the revised programme appropriations (which for instance in the case of the UNIDO programme and budgets for the fiscal period 1986-1987 already reflect unequally spread economies and currency fluctuation effects);

(b) It is not clear whether the exercise should be made for all major programmes or rather for substantive programmes;

(c) As well in the past as at present (under the new programme and budget presentation format) the UNIDO budgetary programmes (and appropriations) are set up primarily along organizational and functional lines and can therefore hardly be considered fully appropriate for a meaningful reallocation exercise based on the affected substantive programmes; and

(d) There is a close operational interrelationship between the (regular budget) programmes so that additional resources for a substantive programme might make necessary additional resources for support programmes also (especially Administration) (see also para. 28).

27. It would therefore seem to us that, in the case of UNIDO, the reallocation of unutilized balances of appropriations to those original programmes that had been affected is, from a technical viewpoint, effectively implementable only:

(a) For certain, well-defined and "autonomous" substantive (sub)programmes such as IDDA and the regular programme of technical cooperation. Even then, this would have to take the form of a figurative deferred programme and budget, i.e. based on approximate estimates of original "affection" and for additional new activities fitting in with the current substantive programme; and

(b) For specific object of expenditure categories such as ad hoc expert group meetings and consultant services, purchases of equipment, publications and maintenance service projects (e.g. replacement of carpets).

VI. ADMINISTRATIVE AND FINANCIAL APPROPRIATENESS AND EFFECTIVENESS

28. A (real or figurative) deferred programme and budget as well as a reallocation of budgetary surpluses to cover unforeseen expenditures or income shortfalls in later budget implementation cannot be considered as fully appropriate and effective in the administrative and financial management respect because:

(a) In view of the time passed since the original programme was approved (see the modified financial regulations 4.2(b) and 4.2(c)) the deferred programme activities are probably no longer relevant for the meanwhile updated and evised programme of the Organization. This is particularly true if, as in the case of the UNIDO budgetary surplus for 1986-1987, the reallocation is still further delayed by the temporary suspension of financial regulations 4.2(b) and 4.2(c);

(b) At any rate, the apportionment of the relatively small amount involved in a reallocation exercise over multiple substantive programme and subprogramme elements can hardly be considered cost effective;

(c) The experience at UNIDO for the fiscal periods 1986-1987 and 1990-1991 shows that a system of supplementary funding for a current fiscal period, approved towards the end of that period and taking the form of either a supplementary assessment on Member States or a reallocation of budgetary surpluses (to finance shortfalls in current budget implementation) is not usefully implementable under the prevailing legislative conditions (see also our comments on this subject in the external audit report on the accounts of UNIDO for the financial period 1990-1991 ended 31 December 1991 (IDB.10/4 - PBC.8/9)); and

(d) The implementation of any budgetary reallocation decision of the General Conference would probably require special (and costly) administrative and financial management procedures (e.g. for budgetary control and financial reporting).

VII. CONCLUDING COMMENTS

29. In the ultimate analysis, we are of the opinion that the interests of both the Organization (programme monitoring and implementation) and individual Member States are served best by the non-budgetary (temporary) allocation, if deemed necessary, of (part of) the unutilized balances of regular budget appropriations for strengthening the statutory cash resource base of the Organization (see table 4).

30. Both of the possible methods (see para. 17(d) above) produce here the same result. Indeed, just as the actual formal replenishment or increase of the Working Capital Fund of the

Table 4

UNIDO Working Capital Fund, 1986-1991

(In thousands of US dollars)

	Working Capital Fund			
Date (a)	Cash (b)	Assessed contributions unpaid (c)	Advances to UNIDO General Fund (d)	Total (principal of the Fund) (e)
As at 31 December 1987	6,775.2	241.9	2,000.0	9,017.1
As at 31 December 1989	5,300.4	55.6	3,500.0	8,856.0
As at 31 December 1991	798.9	15.6	8,190.0	9,004.5

Organization, the temporary reservation of budgetary surpluses on an ad hoc basis (see General Conference decisions GC.3/Dec.17(c) and GC.4/Dec.15(d)) "in order to facilitate the work of the Organization" does provide temporary working capital and thus contributes to strengthening the actual cash resource base of the Organization (we refer also to a Joint Inspection Unit report "Note on contingency margin of the UNIDO budget" (JIU/NOTE/91/2, Geneva, 1991)). The choice between the two possible methods ultimately depends on the degree of willingness on the part of Member States to approve formally an increase in the Working Capital Fund of the Organization.

Acknowledgement

I wish to express my sincere appreciation for the assistance extended to the audit team by the Director-General of UNIDO and his staff at the occasion of the examination and the preparation of this audit report.

(Signed) Jeroom L. E. VAN de VELDE
Senior President of the
Court of Audit
Belgium

External Auditor

Brussels, 6 May 1992